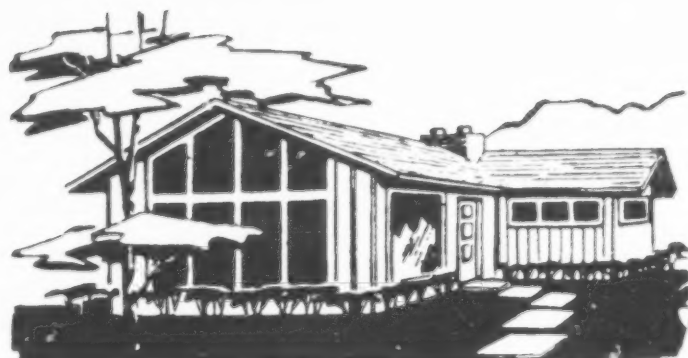




Department of
Veterans Affairs

To The Home-Buying Veteran

A Guide for Veterans
Planning To Buy or
Build Homes With a
VA Loan



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VA Pamphlet 26-6
Revised October 1989

Veterans Benefits
Administration

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Foreword

This pamphlet is designed to help veterans planning to purchase or construct homes, particularly those veterans who intend to finance with VA home loans.

The most important topics discussed in this pamphlet are:

- The cost of home ownership;
- Finding a suitable and affordable home;
- The agreement to purchase the home;
- Closing the loan (final settlement); and
- Before and after moving day.

This pamphlet does not try to discuss the arguments for or against homeownership. It is up to each veteran to decide whether homeownership is best for his or her family.

This pamphlet does not apply to manufactured (mobile) homes. See VA Pamphlet 26-71-1 for information about this type of home. See VA Pamphlet 26-4 for details about VA-guaranteed loans.

Since the end of World War II more than 12 million veterans have bought homes with the aid of VA loans. The great majority of these veterans have bought soundly constructed homes and are now making regular payments on their mortgages as satisfied homeowners.

However, a very small percentage of these veterans have had just cause to be dissatisfied with the outcome of their venture into homeownership. It is hoped that this pamphlet, by stressing the important things that a prospective homeowner should know, will help to reduce the number of these cases in the future.

Buying a home is usually the most important financial transaction in the lifetime of the average family. Before you decide to buy a home, therefore, you and your family should be certain that you are:

- GETTING THE RIGHT HOUSE- THE ONE THAT SUITS THE NEEDS OF YOUR FAMILY.
- AWARE OF THE RESPONSIBILITIES THAT HOMEOWNERSHIP BRINGS.

Secretary of Veterans Affairs

Equal Housing Opportunity

Discrimination in the sale of housing because of race, color, religion, sex or national origin is prohibited by Federal laws. In November 1962, Executive Order 11063 banned discrimination in all federally assisted housing. The "Fair Housing Law," Title VIII of the Civil Rights Act of 1968, followed by amending legislation, required positive action be taken by Federal agencies to prevent discrimination in all housing. Further, title VIII protects you from the following acts when they are based on discrimination on account of race, color, religion, sex, handicap, family status, or national origin:

- Refusal to deal,
- Discrimination in terms of sale,
- Discriminatory advertising,
- False representations that a dwelling is not available,
- Blockbusting,
- Discrimination in financing, and
- Discrimination in real estate services.

These laws provide every person an equal opportunity to choose suitable housing.

The Department of Veterans Affairs affirmatively administers the VA housing program by assuring that all veterans are given an equal opportunity to buy homes with VA assistance. All VA program participants—builders, brokers and lenders offering VA financing or VA-guaranteed housing—must comply with Executive Order 11063 and the Civil Rights Act of 1968, as amended.

Builders must sell newly constructed homes with VA financing to eligible veterans without regard to the race, color, religion, sex, handicap, family status, or national origin of the veteran.

Brokers participating in the VA home loan program must not discriminate against a person on the basis of race, color, religion, sex, handicap, family status, or national origin by refusing to show or sell a property; by discriminating in the terms of the sale; or by representing that property as not available for inspection.

Lenders participating in the VA loan program are required by the Civil Rights Act of 1968, as amended, to act on applications for VA home loans without regard to the race, color, religion, sex, handicap, family status or national origin of the veteran. In addition, the Equal Credit Opportunity Act prohibits a lender from discriminating against an applicant on the basis of the foregoing, or on the basis of age or marital status; because an applicant's income derives from any public assistance program; or because the applicant has exercised any right under the Consumer Credit Protection Act. Lenders are also prohibited from discouraging applications on these grounds, and, to ensure that each applicant is fully aware of his or her rights under the Equal Credit Opportunity Act, a lender must provide each applicant with the Equal Credit Opportunity Act Notice and a written statement of reasons when credit is denied.

Therefore, if you are seeking to use your entitlement to buy a home, you may be assured that VA will protect your civil rights and equal housing opportunity.

The following actions, when based on discrimination because of race, color, religion, sex, handicap, family status, or national origin, are recognized violations of the Federal Fair Housing Law:

- Refusal to negotiate to sell property;
- Discrimination in terms or conditions of sale of real property;
- Advertising indicating any racial, religious, ethnic, or gender preference;
- False representations that real property is not available for inspection or sale;
- Blockbusting or inducing owners to sell real property by representations regarding entry into the neighborhood of persons of a particular race, color, religion, sex, handicap, family status, or national origin for profit; and
- Discrimination in financing, terms or conditions of a loan, or denying a loan.

If you experience or suspect discrimination by a builder, broker or lender, the local VA office will investigate. To start a VA investigation, submit a written complaint directly to the local VA office. Your complaint must describe the discriminatory action including the date it occurred, names, addresses, and telephone numbers of all parties involved in the action, and the address of the property involved. VA has a form for this purpose (VA Form 26-8827, Housing Discrimination Complaint) which you may request from your local VA office.

You should note that in many localities fair housing associations have been organized to assist you in locating and purchasing a house of your choice. There may be such an organization in your area.

When the alleged discrimination concerns HUD/THA (Department of Housing and Urban Development/Federal Housing Administration) home loans and other housing, complaint letters should be sent to the Department of Housing and Urban Development, Assistant Secretary for Equal Opportunity, Washington, D.C. 20410.

If you are unable to find new homes available for sale with VA financing in your area, or if you are unable to determine whether particular homes being built are available for sale with VA financing, the local VA regional office may be able to assist you. In addition, in many areas VA has repossessed homes which it will sell to qualified buyers. Inquiry as to the availability of any VA repossessed homes for sale in the area in which you are interested may be made by contacting local real estate brokers.

Another area to be explored is State benefits. Many States offer housing programs which are independent from federal programs. The programs and benefits, as well as the qualifying criteria, may differ from one State to the next. Information on State programs may be obtained from State officials or from the local VA regional office.

What VA Does for the Home-Buying Veteran

VA guarantees part of your loan—which helps you to get a VA loan featuring:

- A lower interest rate slightly lower than a conventional rate;
- No downpayment (unless required by the lender or the purchase price exceeds the reasonable value as determined by VA), and
- Assurance that you can pay off all or part of the loan in advance without penalty.

VA appraises the house to determine its reasonable value in the housing market at the time the appraisal is made.

VA requires compliance inspections in most cases on proposed new construction to see that the house:

- Meets accepted standards of good construction.
- Conforms to the plans and specifications on which VA's appraisal is based.

VA will try to assist you in getting your builder to correct any defects about which you may have valid complaints.

What VA Does Not Do

VA does not have the legal authority to:

- Act as your architect. It does not supervise construction of the house you buy.
- Guarantee that the house is free of defects.
- Act as your attorney. It cannot provide you legal services if you run into trouble in buying or constructing your home.

VA cannot compel a builder to remedy defects in construction or otherwise compel the builder to live up to a contract with you.

VA cannot guarantee that you will be completely satisfied with the house, or that you can resell it at the price you paid.

VA cannot guarantee that you are making a good investment. That is a decision which only you can make.

1 The Cost of Homeownership

One of the common errors made by people buying homes is to think that the only cost will be monthly payments of principal and interest on the mortgage. It is important to keep in mind that there are other items which have to be paid which add up to a substantial outlay. Before you buy, be sure that your income is sufficient to cover all of the costs which you will have to pay.

Initial Cash Outlay—Closing Costs

First, you must have enough cash to make a downpayment, if required. (The downpayment is the difference between the purchase price and the amount of the loan which the lender will make to you.)

Then, in addition to the downpayment, you will have to pay for a number of items commonly called "closing costs." These costs, which can be substantial, must be paid in cash at the time the loan is made.

The term "closing costs" generally refers to all charges paid for obtaining the mortgage loan and transferring real estate title. While the sharing of closing cost items between buyer and seller may be agreed to in the contract of purchase, all or a significant part of the closing costs are frequently paid by the buyer.

Among the items which the buyer may be required to pay for are title search, title insurance (a lender's policy and, if desired, a buyer's policy), survey, credit report, appraisal fee and related compliance inspection fee, if needed, recording fee, State and/or local transfer taxes, a VA funding fee and a lender's origination fee (usually 1 percent of the loan amount; for example, \$500 on a \$50,000 loan). The purpose of the origination fee is to cover certain costs to the lender in making the loan, if these costs are not paid item-by-item by the borrower.

Certain other costs, technically referred to as "prepaid items," must be paid by the buyer at the time of loan closing. Among such costs are the buyer's share of the current year's real estate taxes and the first year's premium for hazard insurance. These costs also become part of the recurring costs of homeownership due each year.

If you are purchasing a home in an area where title insurance is the method used to assure good title to the property, it is advisable to inquire about the existing title insurance policies (lender's and seller's) on the property, for it may be possible for you to obtain a policy at a reissue rate. The reissue rate is usually lower than the original rate and may be available for both lender's and buyer's policies. Reissue rates are usually limited to the reissuance of a policy on the same property by the same title company that insured title in the present owner within 10 years. Some title insurers will extend the reissue rate to policies written by other companies. Your seller will probably have the information about the date, type, and amount of any existing policy or policies that you need to support a request to the title company for the reissue rate.

The Real Estate Settlement Procedures Act requires the lender to give you a good faith estimate of the cost of closing within 3 business days after taking your loan application. The cost of individual items included in a given transaction may vary a good deal throughout the nation because of differing local laws and customs. Closing costs may also vary among lenders and you may wish to compare the closing costs charged by different lenders before applying for the loan.

In addition to the downpayment and closing costs, don't forget to allow for any expenses you will have for moving and for furnishings and equipment at the time you move into your new home, as well as a reserve for emergencies. It should be remembered, however, that the more you are able to pay as a downpayment, the less interest you will have to pay over the life of the loan.

Future Costs of Homeownership

The downpayment, if any, and closing costs are costs you will have when your loan is made. But they are only the initial costs. You must also be able to pay the future costs from your income, as follows:

- **Mortgage Payments.** You will be required to make monthly payments to cover interest and principal on the mortgage. This is the biggest item of monthly expense but is by no means the only one.
- **Taxes and Insurance.** You will also have to pay future real estate taxes and assessments, and for insurance on the property (that is, insurance that will pay for losses due to fire or other hazards). Usually an amount to cover real estate taxes and insurance will be added to the monthly payment you make to the lender. You should bear in mind that your monthly payment may later be increased if real estate taxes or insurance costs rise. To assure yourself of the accuracy of the tax estimated by the builder or seller of the property, you may wish to discuss this matter with your lender and check with the local taxing authority.
- **Heat and Utilities.** You will have to pay the heating cost and the utility bills. The amount of your fuel bill will vary, depending upon the climate, how well the house is insulated, etc. Utility bills for electricity, water, gas, and the like will also vary, depending on the extent to which your household uses them. In figuring whether you can afford to pay the expenses on the home you propose to buy, be sure to make adequate allowance for these items. Your lender will be able to help you estimate these costs. It might also be a good idea to check with other homeowners with similar houses in the area.
- **Maintenance.** Remember that, like everything else, your house will wear out as it gets older. To keep it in a good shape, you will have to pay for the cost of maintenance and repairs. You will have to paint your home every few years. Your heating and electric system will need repairs from time to time; you will have to replace equipment, and so on. An individual sewage disposal system will require care and maintenance. (See p. 17) If yours is a well-built new

home, these expenses should not be too large during the first 2 or 3 years, but will rise as your property gets older. You should seek advice from a qualified source as to the probable cost of maintenance, so that you can put aside a small amount each month for future maintenance expenses.

If you are required to become a member of a neighborhood homeowner association, the dues or periodic assessments payable to the association may be a significant expense item. These homeowner associations are formed for the purpose of providing maintenance of items such as residence exteriors, neighborhood recreational facilities, and park and landscaped areas which are part of the residential development. Typically, these developments consist of apartments, townhouses or semidetached homes, together with "common areas" deeded to the homeowner association. They may be called "townhouses on the green," "planned-unit developments," "planned developments," "condominiums," or "open space communities."

- **Other Debts.** If you already have other debts such as furniture or automobile payments, or if you will have to buy things for your home on an installment plan, be sure you can afford to meet these payments in addition to the other costs discussed above. Some home buyers run into serious trouble because they burden themselves with too many things for their new home on the installment plan. Don't let yourself be high-pressured into buying extras or expensive special equipment. These items may be desirable, but you should buy them only if you can pay for them without straining your ability to pay for your housing and other living expenses.

Before deciding to buy a home, get out your pencil and figure out your total monthly costs. The financing checklist which follows will help you on this.

There is no fixed rule which can determine how much an individual family can pay for total monthly housing expenses. It is a problem for each individual family to work out. The main thing is to make sure that the monthly cost of your home won't strain your budget. Generally, your lender will be able to advise you whether your income and that of your spouse is high enough to qualify for a VA loan.

Another good check is to compare the total housing expenses you will have to pay with what you are now paying for rent or for the house you now own. If the new home you plan to buy or build will increase the monthly expense above what you are now paying, be doubly certain that you can pay the increased costs without too much strain.

If you are not sure you can handle the costs involved based on your present and anticipated income, you should postpone buying a home until you are sure you can carry the total monthly cost, or buy a less expensive home which you can afford.

A Financing Checklist

Add these figures and then compare them to your assets and monthly income:

Downpayment

Closing Costs*

VA funding fee

Loan origination fee (1 percent of the loan)

Title search and examination

Various legal fees

Other charges (credit report, appraisal fee, title insurance,
recording fees, survey)

Total Initial Cost

Monthly payment on mortgage

Monthly payments on taxes and assessments

Monthly payments on insurance

Total Monthly Payment

Plus

Probable fuel cost (average per month)

Probable monthly utility cost (lights, water, gas, etc.)

Estimated monthly maintenance and repair expenses

Total Monthly Cost

**If you don't know these amounts, you can use an average of about 3-1/2 percent of the loan amount.*

The total monthly cost is the figure you should compare with your weekly or monthly pay. Study carefully to make sure that you will be able to pay the total monthly cost out of your income and/or your spouse's income and still have enough to meet all the other items in your family budget; i.e.,

DEDUCT: Total monthly cost from net income (monthly take-home pay)

BALANCE: Is it sufficient for food, clothing, medical care, automobile, monthly payments on consumer credit accounts, other family expenses, and savings for emergency and future expenses?

2 Finding a Suitable and Affordable Home

The Neighborhood

If you want to be entirely satisfied with your new home, be sure that you can answer yes to the following questions:

- Is the house suitably located for schools, churches, shopping facilities, transportation and your place of work?
- Is the neighborhood well maintained and are the other houses similar in type and price range to the one you wish to buy?
- Does the area have local zoning laws or deed restrictions which will protect the neighborhood? Zoning laws and deed restrictions protect against such things as the construction of commercial property in residential areas, and may regulate lot sizes, the types of houses that can be built in the area, and whether or not manufactured homes may be placed on privately owned land.
- Is the house located so that you won't be bothered by noise, dirt, and danger from highways and other streets with heavy traffic?
- If not already installed, will there be adequate streets, sidewalks, curbs, and gutters? These items are called "offsite improvements," and you should be sure which of these improvements are included in the sales price of the house and that they will be provided without additional cost to you.

Remember that if "offsite improvements," such as sidewalks, street curbs and pavements, storm sewers and sanitary sewers are not included in the purchase price, their cost may be assessed against you if they are installed by the city or county, and you will have to pay for them later. It is a good idea to have the builder or seller list on the purchase agreement the "offsite improvements" which are included in the sales price.

The Lot

In addition to the general location and neighborhood, you should make sure you are going to be satisfied with the size and shape of your lot, and with the existing or proposed lawn, shrubbery, walks, driveway, garage, etc. If any additional work on the lot is to be done, make sure that the purchase agreement lists all such improvements which the builder or seller will make as part of the purchase price. If you want to have play space for the children, or a garden, make sure that sufficient space is available.

Will the land be properly graded to provide diversion of water away from the building and from the lot, to prevent standing water and soil saturation harmful to the structure and to lot use, and also provide appropriate finished grades for safe

and convenient access to and use of the lot area? If it is an existing house, take careful notice of the slope of the ground around the house. It should slope away from the house so that water will be carried away from the foundation; otherwise, the water may cause trouble. If possible, check the lot after a heavy rain to see whether it drains properly.

If you are building a house or placing a manufactured home on land you are purchasing separately or already own, consider how far away the utilities are and the cost of hook-up. If service from a public or community water or sewage system is not available, find out if the ground water and subsoil conditions are satisfactory for an individual well and/or sewage disposal system.

The House Itself

If you buy a house with a VA loan, VA will appraise the property to establish its reasonable value, which is an estimate of the current market value. You will be notified of the reasonable value. If you are building a home or buying a newly completed home with VA financing, VA or HUD/FHA will usually inspect the property during construction. These inspections are to see that the house is constructed according to the plans and specifications originally filed with VA and that it meets the minimum property requirements established by the Government.

This inspection service is valuable to you because it helps assure that your builder follows the construction practices advocated by the Government to assure a sound structure. It does not give you architectural supervision and does not assure you that you will be completely satisfied with what you get. Your main reliance must be on the reputation and integrity of the builder from whom you choose to buy.

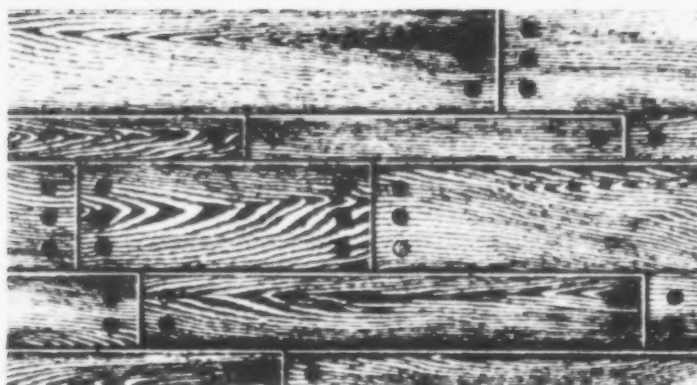
But remember that the Government cannot guarantee you that the house is properly constructed in all respects, nor can it guarantee that you will be satisfied with the house in every way. The responsibility of the Government is limited under the law. VA is guaranteeing your loan, but it cannot under the law guarantee your house.

Because of this, it is very important that you have confidence in the ability and honesty of the company or person who is building or has built the house. If you have any doubts at all, be sure to get the advice of people you can trust who know the homebuilding business. A few words of good advice from a responsible person can save you years of future trouble.

If you plan to have a new house built according to your plans, it would in all likelihood pay you to employ the services of an architect.

If you are buying an "old" house (that is, a house that has been previously occupied), there will, of course, be no VA or FHA inspection during construction. It is extremely important for you to make sure that the house is structurally sound. Here, too, the advice of someone who understands housing construction can be helpful.

As you look over the house, your primary job is to make sure that the house meets the needs of your family. The checklist on pages 18-21 should help you in checking over the main features of the house. The following pointers are given to help you to know what to look for.



Floors

You should examine the floors very carefully to see that they are level and without serious surface defects. If it is a wood floor, take careful note to see that the joints are tight and that it has been properly sanded and finished. Small knots in the flooring do not necessarily mean that it is of poor quality, but they must be tight knots to be acceptable.

Wood flooring comes in a number of types. The two major types are: square blocks known as parquet flooring, and flooring that is in strips of various lengths known as strip flooring. A good way to determine if the floor is well laid and tight is to walk over it slowly to make sure that there are no places where there is noticeable give under foot. If so, that part of the floor should be corrected.

Some new houses today may have concrete floors covered with asphalt tile or wood flooring. When asphalt tile is used, you should be able to tell readily whether the flooring is well laid and tight. It is particularly important that the joints be smooth.

Kitchen floors will usually be either linoleum or asphalt tile, and the bathroom floor will usually be either linoleum, asphalt tile, or ceramic tile. You should inspect these floors to see that the material has been laid in a workmanlike manner.

The asphalt tile or linoleum should be properly fitted around the corners and fixtures. If there should be cracked or chipped pieces, then you should require that these be corrected, because water will get down in these places and work its way under the asphalt tile or linoleum and loosen it from the floor, and you will have a poor floor.

Doors

Take a good look at the front and rear doors, opening and closing them several times to see that they fit well. Large cracks can cause trouble although some clearance around the door is necessary. While examining the doors, also look at the threshold, which is the separate piece installed under the door and fastened to the floor. This threshold or bottom piece should work in combination with the bottom weatherstripping so as to keep out wind and rain.

Inspect all of the interior doors also. Make sure they all close and latch properly and are not warped out of shape. Look at the finish of all doors to make sure that the builder has painted or varnished them so that they will be protected against moisture.

Ceilings and Walls

Inspect the walls to see that they are of the material that you expected. There are two main types of inside wall finishes, known as "dry wall" and "plastered wall." The "dry wall" can be of plywood, gypsum wallboard, or fiberboard that is placed on the walls and taped and then painted or papered; this provides a good finish that is very serviceable.

The "plastered wall" is constructed of lath and plaster. Experience has shown that both types of wall are satisfactory if properly finished. The walls may be painted or papered, and you should inspect the finish to see that it meets with your approval.

Most of the paint used in structures built in 1950 or earlier contained significant amounts of lead. Lead-based paint has been determined to be a health hazard to children who might eat chips from the paint. Before you decide to buy any older house which has cracking, peeling, scaling or loose paint, you should insist upon arrangements being made to properly treat such surfaces so that the paint is removed or covered.

Some homes built between 1945 and 1978 may contain a crumbly, asbestos-containing material which has been either sprayed or troweled onto the ceiling or walls. If the material is in good condition, it is best to leave it alone. If the material appears damaged you may want to consider having it repaired or removed. In order to be a health risk, asbestos fibers must be released from the material and be present in the air for people to breathe. Before you decide to buy, this additional potential health risk should be given careful consideration.

Electrical Outlets

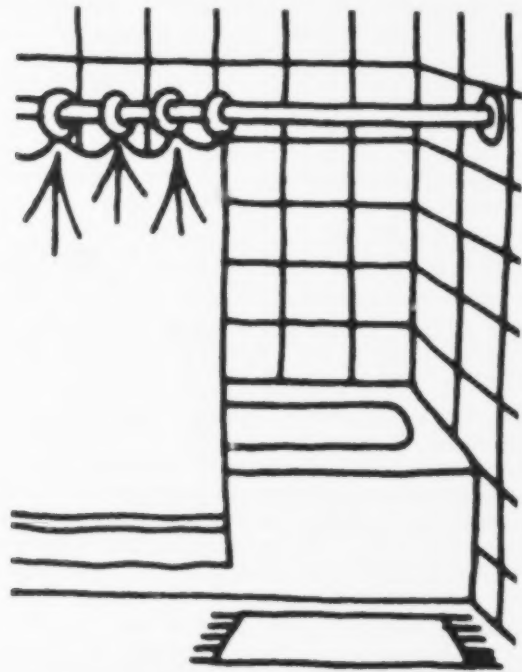
While looking at the walls, take time to note the electrical outlets, their locations, and if there are enough of them to meet your needs. The wall switches should be placed so you can reach them when you open the door. Make sure you have sufficient power circuits to run whatever appliances or equipment your family intends to use. Remember that some older houses were not originally wired to take care of the many electrical appliances and the equipment commonly used today.

Windows

Be sure there are enough windows to give proper light and ventilation and that they are located so that they will not interfere with your furniture arrangement. Try opening and closing all windows to see that they operate properly and especially whether or not they close tightly to keep out the weather.

If you find the windows in a new house do not close tightly, ask the builder to correct them before you move in. If you find the windows painted shut, be sure to have the builder free them because if you try to do it you might damage the window as well as ruin the paint.

Does your contract provide for screens? If not, keep in mind that you may wish to add them later. The same applies to storm windows and storm doors. If you think they will be necessary, allow for them in your estimate of total cost.



Bathrooms

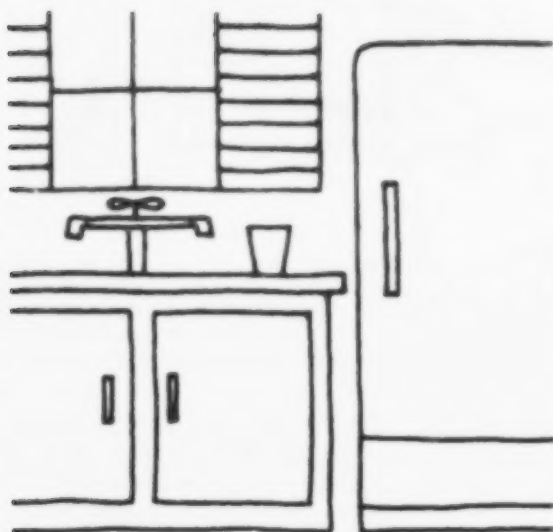
The bathroom should be located near the bedrooms and preferably so that you don't have to enter through another room. Inspect the bathroom to see that the towel bars, soap dishes, and other fixtures that you contracted to get are installed and that you have a medicine cabinet properly located.

Examine the location of the wall switch for the light in the bathroom. Be sure that this switch is located so that you cannot reach it while standing in the bathtub. If you can reach the switch easily from the tub, require the builder to move it, because you or your children can get a severe or even fatal shock by standing in a tub of water and turning on a switch.

The lower part of the bathroom wall is usually covered with ceramic tile, plastic tile, or some other waterproof material to protect the wall against splashing. Inspect the tile and bathtub for proper installation and chipping which may lead to an expensive repair job in a year or two.

Closets

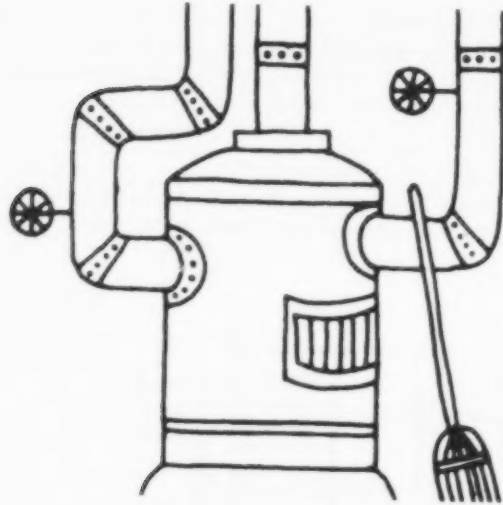
Check on the number and size of closets. Do they meet the needs of your family? Make sure there is sufficient room in them for the purpose for which they are intended.



Kitchen

When you buy your home, certain items of equipment for the kitchen may be included in the purchase price. Make sure of exactly what you are supposed to get, and have it in writing. Examine these pieces of equipment to make sure that you have received the make, size, and price range specified, or the equivalent. For example, do not accept a second-rate range or refrigerator when you were supposed to get one of the best. Your sales contract should specify the type and

size of kitchen and laundry equipment to be included in the purchase price. (The same goes for the water heater and furnace if you buy a new house before it is completed.)



Heating Unit

If you are not a heating expert you might ask the question, "What good would it do me to look at the furnace?" In the case of proposed construction, the builder will specify the make and the size of the unit, and you can compare this with the one installed in the house.

There are many types of heating systems, any of which are satisfactory when of proper capacity for the house. These will include warm air systems, with ducts and outlets; hot water pipe and radiator types; and radiant pipe or panel types—these may be gas, oil, electric, or coal-fired. Many systems have compact units of much smaller size than was true some years ago. The main concern is that the particular system has proper capacity for comfort and economy.

Two things you can check are the "Btuh output" and the calculated "heat loss." These measure the amount of heat the furnace will give and the amount of heat needed for the dwelling. If the specifications call for a "70,000 Btuh output" furnace, do not accept a furnace marked with any figures less than this, because if you do you may not be able to heat your home properly or economically. If the builder has substituted a different make furnace with the same rating, then be sure the furnace that the builder installed is equal to or better than the one that should have been put in.

Of course, if you live in a warm climate, less elaborate heating equipment may suffice. Furthermore, if you're buying an old house, you'll need expert advice on whether the heating system will be satisfactory, and what repairs it may need.

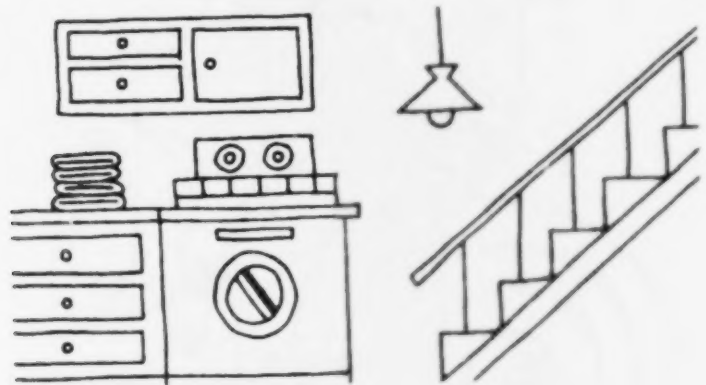


Insulation

If insulation is specified, check on the insulation in the attic and also see that you have open louvers (ventilators) in the attic. A louver is a slatted opening with screen wire on the inside that provides circulation of air, summer and winter. It is very important that these attic vents or louvers be left open throughout the year. Occasionally, homeowners cover up the vent opening to conserve heat or keep out wind-driven rain or snow. Openings should never be left closed up for more than a very brief time, such as during a severe storm period. Closing up this ventilation area can produce excessive condensation, and the resulting moisture may cause rapid deterioration of parts of the roof, walls, or ceiling.

In basementless houses with crawl spaces, foundation vent openings are for the same purpose of providing air circulation. It is important also that these foundation vents be left open the year round except for very brief periods of severe storm. Where heavy treated ground cover paper or roofing has been laid over the entire ground surface in the crawl space, the need for foundation ventilation is much less. However, in all cases some ventilation is important not only to prevent excessive condensation and deterioration of floor construction and other parts of the house but also to maintain better safety. A tightly enclosed crawl space without any vents whatsoever could be a hazard where gas-fired or other type of unit heating systems are located within the crawl space and where sewer pipes are in this area and could cause small gas pockets if the under floor space is nearly airtight.

There are a number of types of insulation which are satisfactory. Foil, fill, slab, or board types of insulation installed between, over, or under framing members will be effective when properly used. Check your specifications and ask questions. If you have a flat roof, the method of installation will be different from that for sloped roofs. The important consideration is proper use of the particular type specified.



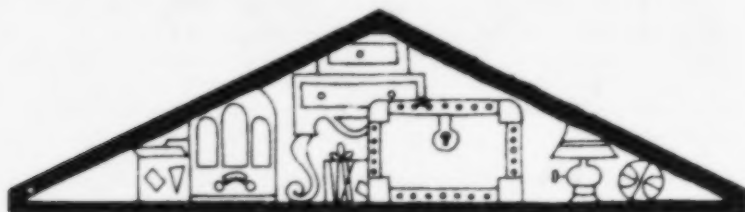
Basement

If your house has a basement, look it over carefully. Concrete floor and walls should have a round surface, and if a drain is provided, the floor should have proper gentle slope toward the drain. A dry basement, which will remain free of water penetration through walls and floor, is highly important. Drainage of rainwater by good outside grading and intercepting drainage swales (low-lying land) to provide drainage off the lot, including provision for carrying water away from downspouts and waterproofing of foundation walls, should be in accordance with specifications.

Damp spots on walls or floor are not necessarily an indication of leakage. In humid areas, condensation will take place when inside and outside temperatures vary. A glass of ice water gives a practical example. Good ventilation of the basement or brief periods of turning on the heating system may well eliminate such dampness.

Storage

Check to make sure you have ample storage space. In houses with no basement, the builder usually provides for storage in the attic or in the utility room. If the storage is in the attic, it will take care of things like trunks, suitcases and the like, but if you have children, don't forget you will need a place for the baby carriage, tricycles, bicycles, etc.



Sewage Disposal

If you are buying a house that is located where there are public sewers, you will have little to worry about. If there are no public sewers, you will probably get a septic tank. Septic tank systems, if properly installed and maintained, should give no trouble. Proper maintenance procedures call for the septic tank to be inspected at least once a year. With ordinary use and care the tank may need cleaning every 2 years. On new houses, VA will require inspections in most cases to try to assure that the system is properly installed. On older properties, you should get advice from your health department or from people familiar with the neighborhood to find out whether septic tank systems in the area work properly.



Additional Notes About "Old" Houses

If you buy an "old" home, you should be absolutely sure the house is in sound condition. Get expert advice, if necessary, from some impartial person who has experience in housing construction. A thorough inspection of the property by you or a reputable inspection firm may help minimize any problems that could arise.

after loan closing. Particular attention should be given to plumbing, heating, electrical and roofing components.

If you find some defects in an old house which the seller agrees to correct, be sure to get a written agreement specifying what the seller will do before you obligate yourself to buy.

The time and expense of getting expert advice is well worthwhile—you don't want to buy a house with termites, a leaky roof, a wet basement, a poor foundation, poor lot drainage, a faulty sewage disposal system, an inadequate water supply system, or defective floors, walls, or ceilings, without knowing exactly what you're getting into. Extensive repairs to correct such defects may be very expensive.

If you believe the home you are buying is in need of storm doors and windows, added insulation or other energy conservation improvements, it may be possible to include the amount necessary to cover their cost in your loan. Check with your lender or the local VA regional office.

The Federal Government is concerned about asbestos-containing products in the home because sometimes asbestos fibers can be released from these products. If asbestos fibers are inhaled, certain types of cancer may later develop. Asbestos in homes poses several problems. Household members have little or no protection from exposure to asbestos fibers. Once released, the asbestos fibers may stay suspended in the air for many hours. After they settle, fibers can be stirred up again by a household activity, such as sweeping. During this time, asbestos fibers can be inhaled. This continued presence could cause an ongoing risk in the home.

For information about laboratories for asbestos testing, and guidelines for how to repair or remove asbestos, call the CPSC (Consumer Product Safety Commission) Hotline, 800-638-2772, or write to the U.S. Consumer Product Safety Commission, Washington, D.C. 20207.

ATTY (teletypewriter) for the deaf is available on the following numbers:

National TTY (including Alaska and Hawaii), 800-638-8270.
Maryland TTY only, 800-492-8104.

Checklist for Use in Buying or Building a Home

The checklist that follows is offered to aid you in selecting your home, and to remind you of the principal items that generally should be considered in buying a home. It does not eliminate the need for reliable, sound advice, nor does it provide for special considerations arising from cost, climate, or personal desires and preferences such as style or architecture or inclusion of fireplace, recreation room, etc. The list does not cover everything but does include the principal items which you should consider.



CHARACTERISTICS OF PROPERTY (Proposed or existing construction)

Neighborhood

Consider each of the following to determine whether the location of the property will satisfy your personal needs and preferences:

- Convenience of public transportation
- Stores conveniently located
- Schools conveniently located
- Absence of excessive traffic noise
- Absence of smoke and unpleasant odors
- Play area available for children
- Fire and police protection provided
- Residential usage safeguarded by adequate zoning

Remarks

☐
☐
☐
☐
☐
☐
☐
☐

Lot

Consider each of the following to determine whether the lot is sufficiently large and properly improved:

- Size of front yard satisfactory
- Size of rear and side yards satisfactory

Remarks

☐
☐

- | | |
|---|--------------------------|
| Walks provide access to front and service entrances | ☐ |
| Drive provides easy access to garage | ☐ |
| Lot appears to drain satisfactorily | ☐ |
| Lawn and planting satisfactory | ☐ |
| Septic tank (if any) in good operating condition | ☐ |
| Well (if any) affording an adequate supply of safe drinking water | ☐ |

Exterior Detail

Observe the exterior detail of neighboring houses and determine whether the house being considered is as good or better in respect to each of the following features:

- | | |
|-------------------|--------------------------|
| Porches | ☐ |
| Terraces | ☐ |
| Garages | ☐ |
| Gutters | ☐ |
| Storm sashes | ☐ |
| Weather stripping | ☐ |
| Screens | ☐ |

Interior Detail

Consider each of the following to determine whether the house will afford living accommodations which are sufficient to the needs and comfort of your family:

- | | |
|---|--------------------------|
| Rooms will accommodate desired furniture | ☐ |
| Dining space sufficiently large | ☐ |
| At least one closet in each bedroom | ☐ |
| At least one coat closet and one linen closet | ☐ |
| Convenient access to bathroom | ☐ |
| Sufficient and convenient storage space (screens, trunks, boxes, off-season clothes, luggage, baby carriage, bicycle, wheel toys, etc.) | ☐ |
| Kitchen well arranged and equipped | ☐ |
| Laundry space ample and well located | ☐ |
| Windows provide sufficient light and air | ☐ |
| Sufficient number of electrical outlets | ☐ |

CONDITION OF EXISTING CONSTRUCTION

Exterior Construction

The following appear to be in acceptable condition:

- | | |
|-----------------------------|--------------------------|
| Wood porch floors and steps | ☐ |
| Windows, doors, and screens | ☐ |
| Gutters and wood cornice | ☐ |
| Wood siding | ☐ |
| Mortar joints | ☐ |
| Roofing | ☐ |
| Chimneys | ☐ |
| Paint on exterior woodwork | ☐ |

Remarks

CAUTION: Cracking, peeling, scaling and loose paint on stairs, decks, porches, railings, windows and doors may contain amounts of lead which are harmful if eaten by children. Examine these areas carefully.

Interior Construction

- | | |
|---|--------------------------|
| Plaster is free of excessive cracks | ☐ |
| Plaster is free of stains caused by leaking roof or sidewalls | ☐ |
| Door locks in operating condition | ☐ |
| Windows move freely | ☐ |
| Fireplace works properly | ☐ |
| Basement is dry and will resist moisture penetration | ☐ |
| Mechanical equipment and electrical wiring and switches adequate and in operating condition | ☐ |
| Type of heating equipment suitable | ☐ |
| Adequate insulation in walls, floors, ceilings and roofs | ☐ |

NOTE: See page 17, Additional Notes About "Old" Houses

The following appear to be in acceptable condition:

- | | |
|----------------------------|--------------------------|
| Wood floor finish | ☐ |
| Linoleum floors | ☐ |
| Tile floors—vinyl, asphalt | ☐ |
| Sink top | ☐ |
| Kitchen range | ☐ |
| Bathroom fixtures | ☐ |
| Painting and papering | ☐ |
| Exposed joists and beams | ☐ |

Are You Sure...

That the basement will stay dry after heavy rains?

That proper drainage of the lot is assured by necessary drainage swales and proper outfall? (See p. 16)

That the sewage disposal system is adequate and in good operating condition? (See p. 17)

That the water supply system, if other than public service, affords an adequate supply of safe drinking water?

That the foundations are sound?

That there has been no termite or other insect damage?

You'd better get EXPERT ADVICE on the condition of existing construction, if you want to *be sure* the house is a good buy. An inspection by a reputable inspection firm may help minimize any problems.

3 The Agreement to Purchase the Home

When you have decided to buy, the builder or seller will usually require a cash deposit (earnest money) as evidence that you really intend to go through with the deal. *Make sure that, when you make a deposit, you get a signed agreement from the seller to refund your deposit if you are unable to obtain VA financing, or if the builder and/or seller fails to go through with his or her part of the agreement.* You may also expect to be requested to agree that if you fail to go through with your part of the agreement, you will forfeit your deposit. These clauses are customary and usual in sales agreements. Be sure that you know the person to whom you are making the payment is reliable. Some veterans have lost their deposits to persons who were dishonest or went bankrupt, and VA can usually do little to help in these cases.

A contract consists of an offer and an acceptance. Generally, the purchaser initiates the contract by signing an offer to purchase on a form entitled "Contract of Sale," "Purchase Agreement," "Deposit Receipt," etc., which is often supplied by the seller's agent. This document, when completed with all essential terms and signed by the purchaser, is a formal offer by the purchaser to buy the property on the stated terms. A contract occurs when the seller accepts the offer without qualifications or change by signing the document prior to withdrawal of the offer by the prospective purchaser. The contract customarily provides for the purchaser to deposit a sum to be applied to the closing costs or purchase price. A proper sales contract should contain the provisions listed below, but bear in mind that this list is by no means complete. Bear in mind also that the sales contract is a legal document containing legal terms which are hard for the average person to understand. Make sure you do understand everything that is in the contract before you sign. Any of its provisions may be vital to your interests.

The best way to protect yourself is to get competent advice from a lawyer in respect to the legal details and the requirements in your area. VA is not authorized to perform this service for veterans.

Remember, when the settlement date arrives, you are committed to the purchase of the property. Thus the time to decide the terms of sale, raise questions, and establish fair fees is not at time of settlement, but earlier, when you negotiate with the seller and providers of settlement services. By the time of settlement, any changes in settlement costs and purchase terms may be difficult to negotiate.

Your sales contract should cover the following points:

- The sales price should be specified in the contract. For your protection, it is usually best if the contract states that the sales price is not subject to change. Some contracts contain a so-called "escalator" clause which permits the builder to increase the price because of future cost increases. A contract without an "escalator" clause may be best from your point of view, but for many reasons the builder may not be willing to build without this clause. If the builder insists upon the clause, you should recognize that it will give the builder the right to increase the price to you subject to whatever conditions may be stated in your contract. A contract containing this clause, however, should also provide that

the purchaser has the option of canceling the contract and receiving a full refund of the deposit if any increased price is not acceptable to the buyer.

- The sales contract should state the amount of cash payment which will be required from you and the manner of financing the balance. Usually the contract will require that you arrange to obtain the loan for the balance due. It should also provide that any cash deposit you make will be refunded to you if you cannot obtain a VA-guaranteed loan within a stated period of time.
- The sales contract should include a provision concerning anticipated closing costs and prepaid items with an understanding as to who is to pay each. This allows you to anticipate the need for cash at closing and prevent disputes.
- The contract should require the seller to transfer the property to you on or before an agreed date. The contract should also specify your right to withdraw and get your deposit back if the property is not transferred on time.
- In the case of new construction, the contract should provide that the builder will complete the home in accordance with definite plans and specifications by a specified date or within a reasonable time thereafter. The plans and specifications describe the type of house that will be built, the dimensions, the type of material which will be used, and other details.
- Before you sign the contract, you should review the plans and specifications to which the contract refers, or have someone do it for you. The average person is not ordinarily able to understand a set of plans and specifications or to determine their adequacy, or to judge later whether the actual construction is being done in accordance with those plans and specifications. Before you sign the contract, you would do well to have some trained person review the plans and specifications for you. If copies have been filed with VA, VA will do its best to see that the actual construction conforms to your plans and specifications, but VA does not actually supervise the construction for you. You will commonly find that either you or the builder will want to make a change from the original plans and specifications as to one detail or another as the building progresses. Those things are matters to be arranged between the builder and you. Usually, VA will require that changes be submitted to VA for approval, but that approval concerns only whether the change conforms to VA construction requirements or requires VA to adjust the valuation it has placed on the property.
- If you do not get a copy of the plans and specifications before you sign the contract, you should make sure that you will have the right to look them over again at any time at a designated place. Normally, the builder will cooperate in allowing you to examine the plans and specifications and furnish you a copy. If the contract identifies the plans and specifications as those filed with VA, VA retains plans and specifications for a limited period of time and, upon request, will give you access to them if available.
- The contract should contain a provision stating who will be responsible for the property from the date of the contract to the date the house is transferred to you. The builder or seller usually takes this responsibility.

- The construction warranty required to be given to veterans acquiring new homes with VA-guaranteed financing is discussed on page 29. If the builder is to assume responsibilities for the condition of the property after it is transferred to you, other than those covered by a construction warranty, it is desirable to specify the builder's responsibilities in the purchase contract or in a separate written agreement executed at the same time. This is discussed further on page 29.
- You should not sign any contract containing a so-called "safety" or "escape" clause which enables the builder or seller to back out of the contract at any time unless you also have similar rights. However, it is most advisable that your contract have a provision which will permit *you* to withdraw from the contract, if you so desire, with no penalty to you *if* the sales price is greater than the reasonable value of the property as established by VA and the contract is signed before you receive notice of VA's reasonable value, or if you should be unable to obtain a VA loan for the amount stipulated.
- The contract should provide for appropriate identification of any easily removable and/or built-in equipment, appliances, or devices which are to be included with the property.

It should be emphasized again that these are just some of the things that a prospective homeowner should be careful about in signing a sales contract. Legal documents are often complicated and there is no substitute for competent advice from a lawyer. You may save yourself a lot of future complications if you get such advice.

4 Closing the Loan (Final Settlement)



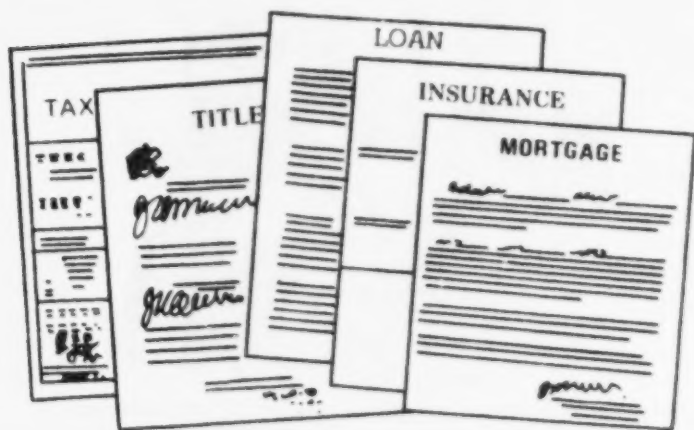
After the house is ready and the financing has been arranged, the lender will set a date for "settlement" or "closing." Settlement day is the day when the property officially becomes yours. You will also remember it as the "paper-signing day." It generally occurs 30 days or more after the contract has been signed. It is a good idea to have a lawyer attend the closing with you. At this time the closing agent or attorney delivers closing statements to the purchaser and the seller. The closer will ask the purchaser to sign the promissory note, bond, or other evidence of indebtedness, promising to repay the purchase money loan; and a security instrument (mortgage or deed of trust) in favor of your lender which makes the property security for the loan. Be sure you understand what you are signing. If you do not have a lawyer, the closer or lender's or title company's representative will help you with the legal terms. Do not be afraid to ask questions. The closer will ask the seller to execute a deed to convey title to the property to the purchaser. When the documents are in order you will pay the balance of the downpayment, if any, and your share of the closing costs. After the closing, the closer will record the deed and mortgage or deed of trust in the local property records. When recorded, the deed will be mailed to you as grantee and the security instrument to the lender. The security instrument remains on record as a lien or claim against the home until your loan has been paid off.

The promissory note which you will sign on the settlement day is a negotiable instrument which the lender may sell, assign or transfer to another investor without prior notice to you. Such a sale would transfer the lender's right to repayment of the loan and you might be advised of a change in the procedures to be followed in making your loan payments. However, your rights and obligations under the security instrument would remain unchanged as would those of the loan holder.

At settlement you will receive important papers for your files, such as the builder's warranty (if you are buying a newly constructed house); receipts for the payments you make; a copy of the survey, if required, showing the boundaries of your property, and purchaser's closing statement or settlement sheets. If title

insurance is in common usage in your area, you may wish to consider purchasing an owner's title policy for your personal protection.

Your closing statement will show the amounts you owe for the downpayment, if any, and for other settlement costs, and any amounts you have already paid. V/A regulations place certain limitations on the fees that may be charged. In general, you should expect your settlement charges to include those which were mentioned on page 4 of this pamphlet.



5 Before and After Moving Day



Soon after final settlement you will move into your new home. Before you move in, you should check the house carefully to be sure that it is in good condition, and that the builder or seller has completed everything called for in the contract. For additional information on some of the things you should look for, see pages 8-22.

If you are buying a new house, you may make an agreement with the builder to move in before all outside work is completed. For example, the builder may not be able to complete the driveway or walks because of cold weather. In such cases, however, it is important that you have a clear understanding-in writing-that any uncompleted work of this sort will be completed properly by a specified date or within a reasonable time thereafter. It is usually desirable to check with your lender, or with the VA office.

When you first move into a house, you may have to do a certain amount of touching up, some of which may be the result of your moving in. After that, if you have a new house, your maintenance expenses should be very little for the first 2 or 3 years.

You should obtain from your builder or seller copies of the manufacturer's warranties on any mechanical or electrical equipment included in the home (heating plant, water heater, refrigerator, range, washing machine, dishwasher, etc.), together with information as to whom to call in case the equipment needs to be serviced. Read and carry out any instructions that may be supplied to you on how to use and maintain each piece of equipment properly.

In general, once you buy your home you will have to pay for future repairs and upkeep, such as outside and inside painting and decorating, and maintenance of the heating system and other equipment. However, when you buy a new home you will be given a warranty by the builder. In the warranty, the builder certifies that the dwelling is constructed in substantial conformity with the plans and specifications on which VA has based the valuation of your home. It is effective for 1 year after the date you get title to your home or move into it, whichever occurs first. If the completion of any work was delayed by conditions beyond the builder's control; i.e., concrete walks which could not be installed because of freezing temperatures, the 1-year warranty on such work extends for 1 year from the date of its completion. The warranty applies only with respect to instances of substantial nonconformity with approved plans and specifications and only if you give the warrantor notice of them in writing before the lapse of the warranty's effective date.

If you buy a new home that is less than 1 year old, has never been occupied before, and was not inspected by either VA or FHA during construction, VA will ordinarily require that the builder provide you with an insured 10-year protection plan on the property. The protection plan must provide for (a) an insurance-backed warranty against defects caused by faulty workmanship and/or defective materials during the first year; (b) an insurance-backed warranty of the wiring, piping and duct work of the electrical, plumbing, heating, and cooling systems during the 2nd year; and (c) direct insurance coverage against structural defects which seriously affect livability from the 3rd through the 10th year.

If at all possible, you should get the builder's agreement in writing as to what the builder is willing to do to correct defects. Many builders of new houses usually assume responsibility during the first month or two after you move in for certain items needing correction in new homes. Some of these items may be: cracks in the masonry work; opening or spreading of woodwork joints; improper operation of doors, cabinets, and windows; water leaks at windows or doors; exterior paint blistering or peeling; settlement of ground around your foundation; tile in your bathroom or kitchen cracking or pulling away from the tub or sink; dampness, as distinguished from actual water, developing in your basement; and excessive floor shrinkage or swelling.

In all cases where you find flaws which need attention, you should notify the builder or manufacturer and allow a reasonable period of time to make any needed corrections. You should expect friendly cooperation from the builder and in turn you should take the same attitude. It may hurt your own interests to ask for any work or repairs to which you clearly are not entitled, as it may affect the builder's readiness to do the things to which you are entitled or which may be of the borderline variety. If you feel that your home has defects which the builder should take care of, and you have not received a response to your requests that they be corrected, you may write in detail about these items to the Loan Guaranty Officer of the local VA regional office. The VA office will review your protests and advise you regarding any assistance they are in a position to give you. Remember, however, that VA is neither authorized nor permitted to guarantee that you will be completely satisfied with your home, or that any specific defect will be corrected.

As an additional safeguard for new construction, VA may pay or otherwise compensate for the correction of structural defects seriously affecting livability which develop within 4 years of the time a home loan is guaranteed or made. The assistance may be requested in the same manner as defects reported when a builder has failed to respond to a request for correction. There is no form to complete and a detailed letter to the Loan Guaranty Officer of the VA regional office or center will be sufficient.

A frequent problem encountered by new homeowners is standing water on some part of the lot after a rainfall or watering. This should ordinarily be resolved by finished grading which is intended to provide diversion of water away from the building and from the lot by intercepting the water into lot line swales (low-lying land). Frequently the swales not only carry the drainage from your property, but also intercept and carry the drainage from adjacent higher properties. Care must be exercised in making additional improvements on your property so that the grading and drainage pattern is not changed or interrupted by plantings, walls, or other obstructions.

If you buy a house which has been previously occupied, there is usually no action you can take against the seller to have defects corrected unless there has been misrepresentation by the seller. That makes it even more important to be sure that the house is in proper condition before you buy. For further comment on this subject, see pages 17 and 18.

Remember, you are obtaining a loan from a private lender which must be repaid, just as you must repay any money you borrow. The VA guaranty, which protects the lender against loss, encourages the lender to make a loan with terms favorable to the veteran. But if you fail to make the payments, you may lose your home through foreclosure, and you and your family would probably lose all the time and money you had invested in it.

Furthermore, if the lender takes a loss, VA must pay the guaranty to the lender, and the amount paid by VA must be repaid by you.

It is most important to you that you make each mortgage payment on the date it is due. If at any time you are unable to make a payment on schedule, get in touch with your lender immediately. The lender may be able to help you avoid getting into serious difficulties.

If you should decide to sell your home and the VA loan was made on or after March 1, 1988, you may not allow someone else to assume that loan or "take over the payments" without the prior approval of VA or your lender. Should you fail to obtain this approval, your lender has the right to declare your entire loan balance due and payable at once and may foreclose the mortgage and file a claim with VA. You would be liable to VA for the amount of any claim paid in such a situation. If you have an older VA loan and do not have to obtain prior approval for someone to assume that loan, you will remain personally liable for any claim paid in the event of loan default, unless you obtain a release of liability from VA.

You can sell your property and avoid future liability: (1) by seeing that your VA loan is paid in full (either by the purchaser paying all cash or obtaining his or her own loan); or (2) by obtaining prior approval from your lender for the purchaser to assume your VA loan with your release from liability; or (3) by obtaining a release of liability directly from VA if you do not have to obtain the prior approval from your lender for an assumption.

To apply for approval of the assumption of your VA loan, contact the lender to whom you send your monthly payments. You will receive the necessary instructions and forms for you and the purchaser to complete and return to the lender. If the VA loan is current and the purchaser appears to be a satisfactory credit risk and agrees to assume your liability to VA and the lender, then the assumption may be approved.

If the lender believes a prospective purchaser will not be able to repay your VA loan, you may appeal this determination to the VA regional office that processed your VA loan. That office may be able to approve the assumption. If VA does not approve the assumption, and if you have been unable to find another purchaser and cannot afford to continue the payments on the VA loan, then you may apply to VA for special approval of the assumption. If special approval is granted, you will remain secondarily liable to VA if a claim is later paid on your loan.

If your loan was made prior to March 1, 1988, then you must apply directly to VA for a release of liability. The process followed by VA will be similar to that followed by a lender making a decision about the prior approval of an assumption of a newer loan.

Selling your home and allowing someone else to assume the VA loan will not permit you to reuse your benefit. In order to qualify for restoration of your entitlement so that you may use it to obtain another VA loan, you must: (1) sell your home and have your VA loan paid in full, or (2) sell your home to an eligible veteran who will assume your VA loan and substitute his or her own entitlement. Approval of the assumption of a loan made on or after March 1, 1988, must first be obtained from the lender, and then VA will process the substitution of entitlement. VA can process a request for release of liability and substitution of entitlement on an older loan at the same time.

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VA Pamphlet 26-6
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